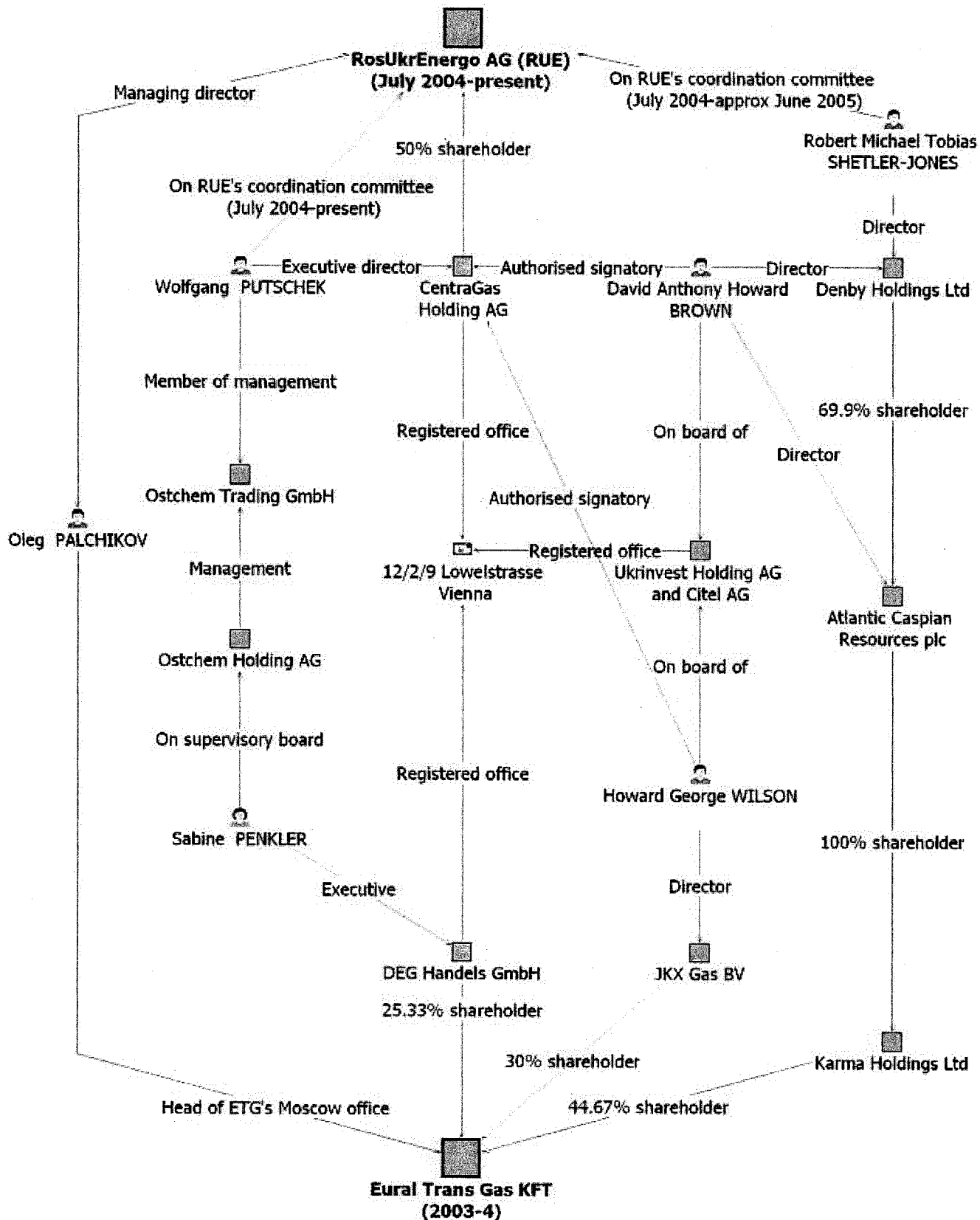


## Links between Eural Trans Gas and RosUkrEnerg

Refer to text for more details



#### 54 *It's a Gas—Funny Business in the Turkmen-Ukraine Gas Trade*

ducted by a Global Witness contact a week after our meeting with him, Putschek stated that Shetler-Jones had voluntarily quit and that Raiffeisen was suggesting a new representative to Gazprom.<sup>424</sup> In a third interview at the end of July 2005, Putschek stated to Global Witness that Shetler-Jones had left the committee 'months ago'.<sup>425</sup> Global Witness wrote to Shetler-Jones for clarification on his work for RosUkrEnerg. Via a letter sent by his associate David Brown, Shetler-Jones said he would not be answering our questions.

As noted above, there is some evidence that Voronin and Boiko stepped down from RosUkrEnerg's coordination committee in June 2005. Global Witness met Putschek at the end of June 2005 and spoke to him again in July. The coordination committee was discussed in both conversations, but at no point in his conversations with Global Witness did Putschek mention that Boiko and Voronin had been on the committee and had apparently been replaced just weeks before. He said in late June: 'Each of the parties brings four people to the committee ... four people representing Gazprom ... and then there are four people from Raiffeisen – one of them is me, one is them is our resident director in Moscow, one of them is directing Raiffeisen Zentralbank – and the fourth we will have to agree with Gazprom,' following Shetler-Jones' departure.<sup>426</sup>

#### **Links between RosUkrEnerg and Eural Trans Gas**

Putschek told Global Witness in June 2005 that he knew little about Eural Trans Gas, the company which had preceded RosUkrEnerg. He said: 'What we see now is a transitional phase. We have the old ETG structure and I know practically nothing about it as I was never involved. But I did have all the contracts to the end of 2005.'<sup>427</sup>

Investigations by Global Witness show, however, that there are actually many links between RosUkrEnerg and ETG and it seems strange that Putschek claims to know 'practically nothing' about ETG. One link is through DEG Handels, the Austrian company which, as described earlier, was one of the shareholders in ETG. Austrian corporate records, accessed by Global Witness in early 2006, give the Vienna address of DEG Handels as 12 Loewelstrasse, Floor 2/9. This is also the address of CentraGas Holding, which owns half of RosUkrEnerg.

One of the executives of DEG Handels is listed in Austrian corporate records as Sabine Penkler, who is also on the supervisory board of a company called Ostchem Holding AG, which is registered at the same address in Vienna: 12 Loewelstrasse, Floor 2/9.<sup>428</sup> Putschek's associate, David Brown,



The registered Vienna office of Centragas & Zangas. And DEG Handels. And Ostchem Holding. And Citel. And Ukrinvest. Global Witness

pany called Ostchem Trading, registered in Zug, Switzerland. Apart from Putschek, this company's management (*geschaeftsfuehrung* in German) is listed as Ostchem Holding AG and a man called Lars Haussmann,<sup>429</sup> an accountant who was RosUkrEnerg's sole director before the company appointed two managing directors in November 2004.<sup>430</sup> Ostchem Trading's business is listed as 'pharmaceutical production trade with chemical products'. As noted above, various people associated with RosUkrEnerg's predecessor ETG have also been involved in the chemical industry.

There are other links between RosUkrEnerg and the group of British businessmen connected to ETG besides Robert Shetler-Jones' stint on the RosUkrEnerg coordination committee. One of the *prokurists* (German for 'authorised signatory') for CentraGas Holding is David A.H. Brown, Shetler-Jones' fellow-director at Denby Holdings which, as noted earlier in this report, was an indirect shareholder in Eural Trans Gas. Putschek told Global Witness that Brown assisted RosUkrEnerg in legal matters concerning the purchase of gas fields. Howard Wilson, who featured earlier in this report as a director of JKK Gas, another ETG shareholder, is also a *prokurist* for CentraGas. Putschek told Global Witness in July 2005 that Robert Shetler-Jones was no longer involved with RosUkrEnerg, though he added that his associate David Brown was still involved.<sup>431</sup>

Two other companies that have been registered at the same Vienna address as CentraGas and DEG Handels – 12 Loewelstrasse, floor 2/9 – are Ukrinvest Holding and Citel AG. David A.H. Brown, Howard Wilson and a man named Charles Treherne are all listed as board members for both companies.<sup>432</sup> Treherne is another associate of Shetler-Jones and David Brown at Denby Holdings; he is also listed as a board member of Ostchem Holding.

A Global Witness contact went to 12 Loewelstrasse in Vienna and discovered that currently two companies share this office. Centra Gas Holding AG and Zangas Holding AG.

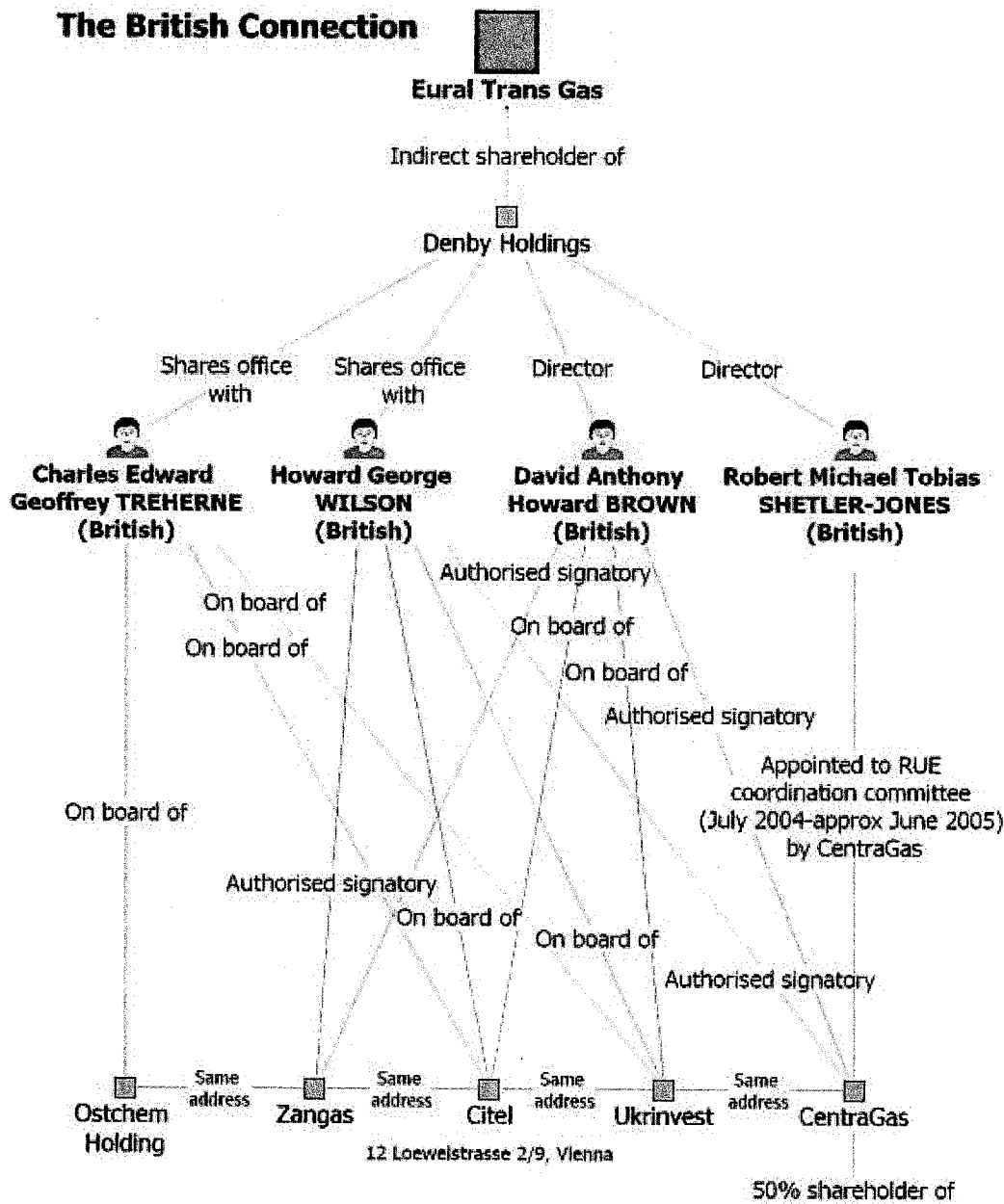
Tiefbau GmbH. ZanGas features David Brown as a board member<sup>433</sup> and was contracted in 2005 to build a gas pipeline in Turkmenistan, for which ZanGas was to be paid in gas, according to Turkmenistan's state website.<sup>434</sup>

Another figure to reappear from the ETG story is Oleg Palchikov, who formerly headed the Moscow branch of the company. A document seen by Global Witness shows that Palchikov was appointed a co-director of RosUkrEnergo in November 2004,<sup>435</sup> representing CentraGas. His co-director

is Konstantin Chuichenko, who is head of Gazprom's legal department<sup>436</sup> and represents Gazprom's 50% interest.

Putschek told Global Witness that Eural Trans Gas did not have any bank accounts with Raiffeisen Bank: 'What is true is that ETG applied for a bank account but it was turned down.'<sup>437</sup> Global Witness later saw a document indicating that one of ETG's bank accounts was at Raiffeisen Bank in Budapest. Having been told this by Global Witness, Putschek said that he would have to check to see if such a

### The British Connection





56 *It's a Gas—Funny Business in the Turkmen-Ukraine Gas Trade*

bank account existed, but added that if one did, it would not have held a lot of money.<sup>438</sup> After its opening two transfers, this account contained US\$5.76 million on 12<sup>th</sup> March 2003.<sup>439</sup>

In September 2003, before RosUkrEnergo came into existence, Raiffeisen Investment bought a 54% share of Rivneazot, a Ukrainian factory that produces mineral fertilisers and other products.<sup>440</sup> According to an online annual report, two of Rivneazot's board members are Alim Svergunenko and Aleksandr Shuklin.<sup>441</sup> These two men also work for Nitrofert, whose chairman is Dmytro Firtash, according to its website.<sup>442</sup> Firtash was the man who got Israeli lawyer Zeev Gordon to register ETG, according to the latter. Global Witness asked Putschek in 2006, via Centra-Gas' PR firm Merlin, if Raiffeisen Investment had purchased Rivneazot on behalf of Firtash, or had any other business relationship with him. The executive declined to answer questions through Merlin. In an interview in June 2005, Putschek had told Global Witness that Raiffeisen had no business with Highrock Holdings, the Cypriot company directed by Firtash.<sup>443</sup>

It was noted earlier in this report that ETG was indirectly controlled, after April 2004, by Dema Trustees and Dema Nominees of Cyprus, which also owned a chemicals company called ACI Trading. The latter's clients included Firtash's Nitrofert and Shetler-Jones' Krymsoda plant, as well as Rivneazot.<sup>444</sup> ACI Trading also had a banking relationship with Raiffeisen Zentralbank, the parent of Raiffeisen Investment: ACI Trading's records show a 'charge on deposit' of the amount of US\$27,000,000, with the Austrian bank as the beneficiary.<sup>445</sup>

### **The Ukrainian criminal investigation that never was?**

In June 2005, the Ukrainian Security Service, which was then headed by Oleksandr Turchynov, an ally of then-prime minister Yulia Tymoshenko, launched a criminal investigation into Eural Trans Gas and RosUkrEnergo. Tymoshenko went so far as to call RosUkrEnergo a 'wart on the body of the Naftohaz company' on Ukrainian television.<sup>446</sup>

The investigation was confirmed by the Security Service's press secretary Marina Ostapenko, who said to the *Moscow Times* in June 2005: '[The Security Service] is currently investigating a number of criminal cases in the fuel and energy complex ... As part of this investigation, the service has launched a probe into former and current intermediaries involved in deals supplying gas from Turkmenistan to Ukraine, including into their possible ties with international

organised crime groups.'<sup>447</sup> In August, Naftohaz spokesman Dmitry Marunich told the *Moscow Times* that the Security Service had recently searched Naftohaz's offices, and that the search was related to the company's former management.<sup>448</sup> The investigation also seemed to provoke a large-scale purge of top government officials in Turkmenistan (see above section: *Chaos at the Central Bank*) after the Ukrainian security service had turned to its Turkmen counterpart for information concerning possible money laundering in Turkmenistan from gas-transportation schemes, according to Turchynov.<sup>449</sup>

In September 2005, Viktor Yushchenko sacked his government, including Prime Minister Yulia Tymoshenko. Her political ally, Turchynov, who had launched the investigation into the intermediary companies, resigned. Political analysts cited the in-fighting between Tymoshenko and the head of the Security and Defence Council, Petro Poroshenko, as one of the reasons for Yushchenko's actions, though other reports suggested that the investigations themselves were causing friction within the cabinet and amongst the president's aides.

Following his resignation from the post of security chief, Turchynov told Global Witness in January 2006 that he had written to Yushchenko, stating that RosUkrEnergo posed a dangerous threat to Ukraine's energy security, but his concerns were ignored. He had previously told *Ukrainskaya pravda* in September 2005: 'I have to say that as soon as the SBU [Ukrainian Security Service] started investigating this scheme, it came under pressure ... I had a conversation with President Yushchenko himself. He accused me of persecuting his people, he said the SBU was working against his team. I explained to him that we were working against criminals, not against his team.'<sup>450</sup>

**Ukraine's Tymoshenko does not like the gas deal.**



Turchynov added that he received a telephone call from one of Yushchenko's aides, Oleksandr Tretyakov, asking him to halt the investigation.

Tretyakov denied this allegation in a later interview with *Ukrainskaya pravda* in which he said: 'I didn't call him even once concerning RosUkrEnergo. Oleksandr Valentinovich [Turchynov] is an experienced politician and a strong person. I could not pressure him while he was head of Ukraine's state security service! As assistant to the president, I don't have any means to put pressure on him.'<sup>451</sup> In the same interview Tretyakov denied having any shares in RosUkrEnergo.

Following Turchynov's dismissal, one of his assistants, Ihor Dryzhchany, took over as the head of the Security Service. Global Witness called the Security Service in February 2006 to ask about the progress of the investigation and was surprised to be told that there had never been such an investigation. The person who said this to Global Witness was Maria Ostapenko, the press secretary of the Security Service and the very same person who had spoken about the investigation to the *Moscow Times* eight months previously.<sup>452</sup>

Had Turchynov gone outside his remit as security chief in launching an investigation of RosUkrEnergo? Or is it possible that, after the January 2006 deal between Russia and Ukraine which put RosUkrEnergo in an even stronger market position than before, there were powers within Ukraine who wanted the criminal investigation to be stifled?

### Turchynov's allegations and their rebuttal

While he occupied the position of Ukrainian Security Service head, Oleksandr Turchynov made it clear that in his opinion intermediary companies posed a threat to Ukraine's energy security. In an extensive interview with *Zerkalo nedeli* in June 2005, he stated: 'The presence of this middlemen structure looks strange, given that there exists a fairly strong state company, Naftohaz Ukrainy.' He went on to express concern over the intermediaries' barter deals: 'There were serious abuses, including ones engendered by the process of barter payment for Turkmen gas' and highlighted the fact that, 'activity on such a scale could not have been carried out without authorization at the highest state level both in Ukraine and in the Russian Federation.'<sup>453</sup>

In another interview with the *Financial Times* conducted during his time as security chief, Turchynov stated that part of the investigation concentrated on whether a man named

RosUkrEnergo. Mogilevich is a controversial Ukrainian businessman, formerly resident in Budapest, now in Moscow, who is currently wanted by the United States authorities in connection with an alleged fraud scheme set up in America.<sup>454</sup> Turchynov stated: 'The surname Mogilevich isn't in the [gas trade] agreements or in the ownership documents [of the companies involved] but there are many indications that a group of people under his control could be involved.'<sup>455</sup>

Mogilevich's lawyer, Zeev Gordon, told Global Witness in a phone interview in August 2005 that people often used the name of his client to 'discredit things' and 'break contracts' – that is, to inaccurately associate him with particular business deals in order to try and create controversy about them. Gordon said that Mogilevich was not involved in any way with companies used to transport Turkmen gas to Ukraine and added in a second interview that he thought that talk of an investigation had been intended to create a political effect: 'the announcement was more important than the investigation.'<sup>456</sup>

Gordon stated in August 2005 to Global Witness that, though Mogilevich knows Dmytro Firtash, the man who had got Gordon to register Eural Trans Gas, he was not familiar with what business, if any, they had together. However, he added that Mogilevich had assured him that he was not involved in ETG or RosUkrEnergo.<sup>457</sup> Wolfgang Putschek told Global Witness that his company had not been approached by any investigators and that the investigation was purely political. He stated that Mogilevich was not involved in RosUkrEnergo, and all ultimate owners had undergone the strictest compliance.<sup>458</sup> Global Witness asked Putschek in 2006 what these 'compliance' procedures involved. Putschek's PR firm Merlin wrote to Global Witness saying that Putschek had nothing further to add to previous answers he had given.

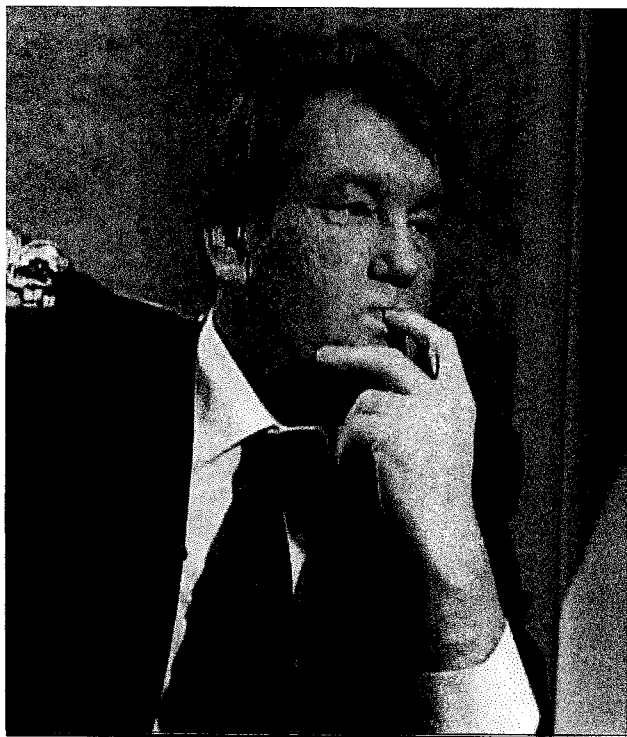
Former chairman of Naftohaz Ukrainy, Yuri Boiko, who signed the ETG and RosUkrEnergo contracts on behalf of Naftohaz, defended the deals on Ukrainian television in August 2005. He stated: 'We received the gas on time and it was the cheapest.'<sup>459</sup> In the same interview he accused his critics of pursuing personal interests in attacking him. Boiko is now involved in Ukrainian politics, forming the 'Republic Party of Ukraine' in 2005.

When Gazprom's chairman Alexei Miller was asked by a British journalist about the criminal investigation of RosUkrEnergo in June 2005, his rather terse reply was: 'If someone in Ukraine wants to go fishing in murky waters

### The gas dispute, January 2006

On New Year's Day 2006, Russia cut gas supplies to Ukraine in a highly publicised move that followed Ukraine's refusal to meet a sharp hike in gas prices. As a result, various countries around Europe experienced a loss in gas supply. International media concentrated on the issue of European energy security and its reliance on Russia. The stand-off was resolved on 4<sup>th</sup> January, when Gazprom and Naftohaz signed a supply agreement that gave a major role to RosUkrEnergo. The company was contracted to buy 41 billion m<sup>3</sup> of Turkmen gas from Gazexport at an undisclosed price and 17 billion m<sup>3</sup> of Russian gas at US\$230 per 1000 m<sup>3</sup>. The contract also stipulated that RosUkrEnergo would sell to Ukraine 34 billion m<sup>3</sup> of gas at US\$95 per 1000 m<sup>3</sup> in 2006. The contract was signed by the chairmen of Gazprom and Naftohaz, Alexei Miller and Oleksiy Ivchenko, and the managing directors of RosUkrEnergo, Oleg Palchikov and Konstantin Chuichenko.

Without Russia, Ukraine can only meet a third of its gas needs from domestic sources. With this in mind, did the chairman of Naftohaz have the authority to sign an agreement giving a monopoly on gas imports to a private company? This was the question raised by many commentators



The founders of RosUkrEnergo could have been anybody... anybody  
*Ukrainian President Viktor Yushchenko*<sup>405</sup>

in Ukraine following the agreement. The question is particularly acute when the company concerned has refused to disclose its ultimate beneficiaries and was possibly, according to former security chief Oleksandr Turchynov, the subject of a criminal investigation.

The contract itself, which is less than two pages long, also left many unanswered questions. Firstly, it seemed to override an existing contract between Ukraine and Turkmenistan, which was supposed to operate until the end of 2006. It is unclear what formula has been used to produce a price of US\$95 per 1000 m<sup>3</sup> for gas sold to Ukraine, when Turkmenistan sells the same gas to Gazexport for US\$65: there is presumably a transportation cost but no details about this have been made public. It is also unclear whether any of the more expensive Russian gas would make its way to Ukraine. Naftohaz chairman Oleksiy Ivchenko has stated that none of this gas would be sold to Ukraine.<sup>462</sup> However, former prime minister Yulia Tymoshenko highlighted the fact that the 34 billion m<sup>3</sup> of Turkmen gas to be sold to Ukraine by RosUkrEnergo would not be enough to fulfil Ukraine's energy demands.<sup>463</sup> The lack of clarity over pricing and volumes is deeply troubling because without knowing exactly where the gas is coming from, it is not possible to work out what the ultimate cost of the gas deal will be for Ukraine.

Furthermore, the contract's operational term is only six months, with the possibility that gas prices may rise later in the year. RosUkrEnergo stated that the agreement can be renegotiated, depending on what happens to gas prices.<sup>464</sup> However, Naftohaz spokesperson Dmitri Marunich insisted that the price is set for five years at US\$95.<sup>465</sup> Turkmenistan may well decide to seek higher prices for its gas, judging by comments by President Niyazov, which would result in a knock-on effect of still higher costs to Ukraine. In effect, the agreement does not guarantee any security for any substantial period of time.

Global Witness contacted Raiffeisen's Wolfgang Putschek in February 2006 in order to clarify the issues raised by the new contract. CentraGas' PR firm responded that Putschek did not want to comment further.

Once again, both Naftohaz and Gazprom rely upon an intermediary to supply Turkmen gas to Ukraine. Gazprom now controls 50% of the latest company, RosUkrEnergo. Yet despite declared intentions to the contrary, Naftohaz has neither rid Ukraine of the use of an intermediary in its gas supply from Turkmenistan, nor acquired a share in such a company. Instead, as Global Witness goes to press, Naftohaz has granted RosUkrEnergo even more of a share of its





Protesters' banners ask if the gas deal has bankrupted the Orange Revolution. *AFP/Sergel Supinsky*

### RosUkrEnergo & Naftohaz create a joint venture

On 2<sup>nd</sup> February 2006, Naftohaz Ukraine issued a press release stating that a joint venture named UkrGazEnergo had been created between Naftohaz and RosUkrEnergo.<sup>466</sup> A Russian oil and gas industry paper reported that Gazprom deputy chairman Aleksandr Ryazanov was appointed its chairman.<sup>467</sup>

This new company would be in charge of supplying natural gas in Ukraine's internal markets. This enterprise therefore places more income that was formerly going to the state via Naftohaz into the hands of RosUkrEnergo, a company half-owned by a group of unnamed Ukrainian businessman and companies. Gazprom benefits through its 50% ownership of RosUkrEnergo.

With so much confusion concerning the new contract, the gas prices and how long they are guaranteed for, the fate of Ukraine's energy supplies depends on Gazprom and the mysterious men who control the other half of RosUkrEnergo. With Turkmenistan's erratic President Niyazov likely to demand higher prices and the threat that Russia may assert its dominance once again, Ukraine faces a difficult future and some troubling questions about the governance of its gas trade.

As described earlier, there have been conflicting views about the commercial benefits of these arrangements. Some Gazprom shareholders and industry analysts have criticised them on the grounds that Gazprom has been giving away

chunks of its business to others. Another expert view is that such arrangements help to negotiate the volatile conditions of the gas business and the complex relationship between Ukraine and Russia. Israeli lawyer Zeev Gordon, the man who registered Eural Trans Gas, speaking to Global Witness as an interested observer of the RosUkrEnergo situation in February 2006, said that the trade could not work without a middleman who can guarantee that Ukraine pays for its gas, and who should be entitled to big profits for taking on the risk of this guarantee: 'If someone is risking [big money] they are expecting therefore to have big profits. There is no other way to make these deals, this is what I understand ... But when you are not in power, you can knock down any plan.'<sup>468</sup>

Naftohaz Ukraine's current management policy originally seemed to be against such intermediaries. In June 2005, the head of Naftohaz, Oleksei Ivchenko, stated that intermediary companies such as RosUkrEnergo would be a thing of the past: 'You know the position of NAK [Naftohaz] is clear and understood and transparent. We consider that there should be no intermediaries in relations between NAK [Naftohaz] and Turkmenistan, between NAK [Naftohaz] and Russia's Gazprom. We are perfectly capable of handling these relations independently and directly.'<sup>469</sup>

The people of Ukraine thus have a right to know why Naftohaz has yet to rid itself of an intermediary in its gas import system or why, if one needs to exist, Naftohaz has yet to buy into this structure. If this proves impossible, it is not only in Ukraine's interest but that of Europe as well, that the undisclosed 50% ownership of RosUkrEnergo be finally revealed.

## Conclusion: Plus ça change, plus c'est la même chose?



Over a quarter of Europe's gas comes from Turkmenistan and Russia. *AFP/Stringer*

The transit of gas from Turkmenistan to Ukraine has, for the last 15 years, been characterised by opacity surrounding a complex web of intermediary companies with largely unknown beneficiaries and high-level decisions made in Russia and Ukraine whose economic justification is often unclear. These intermediary companies have come out of nowhere, parlaying tiny amounts of start-up capital into billion-dollar contracts of vital economic consequence to Russia and Ukraine.

Turkmenistan earns huge sums from gas exports, most of which ends up not in the national budget, but overseas, controlled by its increasingly despotic President Niyazov, while the public services of his country deteriorate and his people slip into deeper poverty. Given the risks of instability in Central Asia and the region's geostrategic importance, it seems extraordinary that an out-of-control dictator should be able to prop up his personality cult with the willing support of European gas buyers, European exporters and European banks. It is time for Europe to stop sitting on its hands and think about such measures as revising banking laws, for example by tightening the due diligence requirements for politically exposed persons who wish to become bank customers, to stop dictators like Niyazov from using the European financial system as a convenient piggy-bank.

Gazprom, the major corporate player in this cross-border trade, has repeatedly promised greater transparency, yet a group of unidentified Ukrainian businessmen continues to play a central role in Central Asian gas transport. At a time

when Gazprom is planning to expand its international operations, with talk in February 2006 of new pipelines to Europe and possible acquisitions in Britain, it is in everyone's interests that Gazprom be as transparent as possible, not only in its own operations but also in its dealings with third parties.

The Russian government also has an interest in promoting transparency in the energy sector, not just because energy security is Russia's chosen theme for its presidency of the G8 countries in 2006, but also to allay the fears about security of supply that were aggravated in Europe after Russia's dispute with Ukraine last winter.

Ukraine remains at the heart of the controversy surrounding this gas trade. Information revealed in this report suggests that the state oil and gas company Naftohaz Ukrainy has been so badly managed from the tenure of Ihor Bakai onwards that it is unable to rid itself of the use of intermediaries. Instead, it finds itself becoming ever more dependant on them. This report has shown that key figures involved in the Eural Trans Gas deal are or have been also involved in RosUkrEnergo, the current intermediary company whose role in Ukraine's gas industry is expanding.

The use of such intermediaries represents the private ownership of state resources, an all-too apparent story in former Soviet countries since the fall of the Union, where natural resources have been controlled by a select few people. Very little information is available on these private individuals



and the qualifications they possess in controlling such fundamental business as a country's energy supply.

How is it in the interests of Ukraine, or indeed of Europe, to have such a vital country's gas supply controlled by complex and opaque private business structures? It is in the public interest to know who exactly stands behind these intermediaries and who ultimately benefits from their operations. This report hopefully acts as a starting point for further enquiries, as a step towards a more open and accountable trading system.

Ukraine needs to establish and disclose, once and for all, who actually owns RosUkrEnergo and permit a fully informed debate as to whether it is in the country's best interests to allow this company to occupy such a central role in the import and internal supply of gas which, as the recent cut-off in Russian deliveries in the middle of winter has shown, is literally essential to Ukraine's survival.

Endemic corruption and the mire of allegation and counter-allegation in the 1990s has besmirched the names of people on all sides of Ukraine's political debate and tainted confidence in the economic management of the nation. The public is entitled to know who controls the gas industry and where and how its revenues are appropriated. Without this information there is an obvious risk that corruption could undermine Ukraine's democracy.

Ukrainian president Viktor Yushchenko himself is in a difficult position. He has promised to tackle corruption but investigating allegations in a sustained and serious way could bring his government into conflict with powerful vested interests. The relationship with Russia also remains highly sensitive and the Ukrainian government must be keenly aware of the possibility of another cut-off in gas supplies from Russia. That said, the alternatives are likely to be worse if Ukraine cannot put behind it the legacy of misrule and financial impropriety bequeathed by former president Leonid Kuchma by investigating any possible improprieties in Naftohaz Ukrainy, publishing full audits of its financial results, and adopting the principles of the best practice initiatives like the international Extractive Industries Transparency Initiative to promote openness and public oversight of the Ukrainian gas industry. If Ukraine is to join the EU, it must conform to freedom of information principles.

The intermediary companies which trade or have traded Turkmen gas – RosUkrEnergo, Eural Trans Gas, Itera and others – may have come into being as an attempt to solve the problems that Russia and Turkmenistan faced in getting

payments out of Ukraine in the 1990s. But they may simply have created another set of problems and posed another set of risks. It is not clear why they have to be opaque and complex offshore structures, featuring unknown beneficiaries. And the use of barter schemes led to huge debts for the Ukrainian state but fortunes for individuals. Gazprom is essential to the trade because it owns the pipelines, without which gas cannot move from Turkmenistan to Ukraine. Gazprom's willingness over the years to allow the intermediary companies to take over some of its own markets overseas has never really been satisfactorily explained.

Although there is a certain amount of mutual dependency between Russia and Ukraine – Russian gas must go through Ukraine to reach customers in the rest of Europe – the tangled maze of companies described in this report is hardly a solid foundation for a trade of such commercial and geostrategic importance. Top officials from both Gazprom and Naftohaz Ukrainy have stated on various occasions that they want the use of intermediary companies in the gas trade between Turkmenistan and Ukraine to come to an end: this would be a very positive step, and should be carried out as soon as possible.

The turbulence and uncertainty of the Turkmen-Ukraine gas trade, which is an integral part of the wider gas trade between Europe and the former Soviet states, raises a question for the European Union and its member states which needs to be answered sooner rather than later: can Europe ensure stability and good governance in the ring of countries, from Algeria in the south to Ukraine in the northeast, which are either sources or transit zones for a growing part of Europe's energy supplies?

A Gazprom representative once said 'soon we will be so transparent you won't even be able to see us'.<sup>470</sup> At the moment the opacity of the Turkmen-Ukraine gas trade is all too visible.



'Cool Danger!' Europe should heed the warning

21 Niyazov, S.A. 2001. Rukhnama. Section 1, p.31. Official English Translation. See [www.ruhnama.com](http://www.ruhnama.com)

22 See [www.un.org/external/pubs/land/1998/p09/gray.html](http://www.un.org/external/pubs/land/1998/p09/gray.html). Estimates of Turkmenistan's gas reserves vary from 2.9 trillion m<sup>3</sup>, which would make them the 11th largest in the world, to 23 trillion m<sup>3</sup> which would put them third.

23 Swiss Review of World Affairs. 5 April 1994.

24 See [www.time.com/country\\_guide/turkmenistan/State\\_Structure](http://www.time.com/country_guide/turkmenistan/State_Structure)

25 Economist Intelligence Unit. 2002. Turkmenistan Country Profile 2002. EIU, London, p.5.

26 *Ibid.* p.6.

27 *Ibid.* p.11.

28 *Ibid.* p.8.

29 See [www.rferl.org/featuresarticle/2005/04/654b4374-35d4-41ce-a557-c73fef15ee5.html](http://www.rferl.org/featuresarticle/2005/04/654b4374-35d4-41ce-a557-c73fef15ee5.html)

30 See [www.rferl.org/special/turkmenelections/timeline.asp](http://www.rferl.org/special/turkmenelections/timeline.asp). This phrase "Turkmenistan of Saparmurat Turkmenbashi" is also used on a Turkmen law web site; see [www.tax.gov.tm/english/aw0013en.html](http://www.tax.gov.tm/english/aw0013en.html)

31 Pannier, B. Nations in Transit 2002: Country Report of Turkmenistan. See [unpan1.un.org/intradoc/groups/public/documents/NISPACE/UNPAN007963.pdf](http://unpan1.un.org/intradoc/groups/public/documents/NISPACE/UNPAN007963.pdf)

32 See [www.cbsnews.com/stories/2003/12/21/60minutes/main590913.shtml](http://www.cbsnews.com/stories/2003/12/21/60minutes/main590913.shtml)

33 Pannier, B. Nations in Transit 2002: Country Report of Turkmenistan. See [unpan1.un.org/intradoc/groups/public/documents/NISPACE/UNPAN007963.pdf](http://unpan1.un.org/intradoc/groups/public/documents/NISPACE/UNPAN007963.pdf)

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